

## **EXHIBIT O**

MP4011003835

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## Increase in Withdrawals From Dividend Balances

Observation: During 1989 there was a significant increase in withdrawals from dividend balances (leaving base policies intact). Upon further investigation, it appears that this can be attributable to an increase in the use of dividend balances in the purchase of new insurance. Metropolitan has had rules and procedures to monitor and control this practice (which is a form of "financing by inforce"), but these rules and procedures were liberalized in 1988.

Background: The company first attempted to apply strict controls over "financing by inforce" in the early 1980's, because of concern over disintermediation in the very high interest rate environment that then existed. The company also took the position (unlike others in the industry) that "financing by inforce" should not be used as a method of selling.

It was recognized, however, that incidental use of dividend balances may be in a policyholder's interest, and that the strict controls were discouraging the field force from appropriate contacts with inforce policyholders. With the moderation of interest rates, controls were relaxed in early 1988.

There are computer systems that assist in the detection of "financing by inforce", but much of the process is still manual intensive. Also, there are related practices (such as use of cash surrenders to purchase annuities) that warrant timely observation.

Recommendation: Metropolitan should implement improved procedures to monitor "financing by inforce" and related practices. With improved mechanisms, management can better determine whether the practice has become (or risks becoming) financially damaging, and can identify particular situations that warrant intervention.

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